

**BEFORE THE
DEPARTMENT OF TRANSPORTATION
WASHINGTON, D.C.**

Joint Application of

UNITED AIR LINES, INC.

and

ASIANA AIRLINES, INC.

under 49 U.S.C. §§ 41308 and 41309 for approval of and
antitrust immunity for an Alliance Expansion Agreement

Docket OST-03-14202

**SUPPLEMENT NUMBER ONE TO JOINT APPLICATION OF
UNITED AIR LINES, INC. AND ASIANA AIRLINES, INC.**

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Dated: January 21, 2003

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Joint Application of

UNITED AIR LINES, INC.

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**SUPPLEMENT NUMBER ONE TO JOINT APPLICATION OF
UNITED AIR LINES, INC. AND ASIANA AIRLINES, INC.**

Pursuant to 14 C.F.R. § 303.04(e), United Air Lines, Inc. ("United") and Asiana Airlines, Inc. ("Asiana") (collectively, the "Joint Applicants") hereby supplement their Joint Application under 49 U.S.C. §§ 41308 and 41309 for approval of and antitrust immunity for an Alliance Expansion Agreement, currently pending in the above-captioned docket.

1. On January 3, 2003, United, Asiana, and their respective affiliates jointly applied for approval of and antitrust immunity for an Alliance Expansion Agreement, as more fully identified in the Joint Application at 1, n.1. As part of the application, United and Asiana provided information identifying, among other things, the nonstop services currently being operated between the U.S. and South Korea.^{1/} Since filing the application, United has announced plans to upgrade the single-plane service it currently operates between San Francisco and Seoul via Tokyo to a daily San Francisco-Seoul

^{1/} Joint Application at Exhibit JA-10.

nonstop, effective June 2, 2003.^{2/} In light of this announcement, United and Asiana are submitting this supplement to update certain of the exhibits to their Joint Application, and to demonstrate that, even with the introduction of this new nonstop service to Seoul, extending antitrust immunity to the carriers' Alliance Expansion Agreement is fully supported by Department precedent and will not substantially reduce competition in any relevant market.

2. As explained in the Joint Application,^{3/} to determine the competitive impact of a proposed alliance, the Department considers, among other things, whether the proposed alliance would significantly increase market concentration in a number of relevant markets, including U.S.-country pair markets and, if applicable, individual city pairs where the alliance partners operate overlapping nonstop service. At the time the Joint Application was filed, United did not operate nonstop service between the U.S. and South Korea. As a result, United and Asiana pointed out in their Joint Application that the immunity they are seeking would not reduce the number of actual nonstop competitors in the U.S.-South Korea market, or eliminate nonstop competition between them in any city pair.

However, with United's announcement that it will upgrade its single-plane San Francisco-Seoul service to a daily nonstop, effective this coming June, United will become the fourth carrier operating nonstop service on that route, a route Asiana is also

^{2/} See United Press Release, dated January 10, 2003 ("United Announces Changes to International Services").

^{3/} See Joint Application at 18.

serving nonstop.^{4/} Thus, the grant of immunity to the United/Asiana alliance would arguably eliminate United as an independent new entrant providing nonstop service between the U.S. and South Korea and between San Francisco and Seoul. Even so, the grant of immunity will not substantially reduce competition in either market.^{5/}

Even with United's upgrade of its single-plane San Francisco-Seoul service to a daily nonstop, service between the U.S. and South Korea will continue to be dominated by Korean Air, which participates in an immunized alliance with Delta. Based on schedules published in the current OAG, as of June 15, 2003, Korean Air will operate 60.7% of the average daily U.S.-South Korea nonstop services and 63.4% of the average daily nonstop seats.^{6/} By comparison, United and Asiana combined will operate only 31.8% and 29.4%, respectively, of the average daily departures and seats, an increase of just 8.2 percentage points over the combined share of daily nonstop seats they currently operate and an increase of 8.7 percentage points in term of frequencies.^{7/}

^{4/} See Notice of United and Asiana, dated January 16, 2003 in Docket OST-02-13320 (Asiana plans to place its code on United's nonstop flights between San Francisco and Seoul).

^{5/} Certainly, United's introduction of a single daily San Francisco-Seoul nonstop will have no adverse effect at all on competition in either the global market or the United States-Far East market, two other relevant markets United and Asiana analyzed in their Joint Application. See Joint Application at 18-20.

^{6/} See Exhibit JA-10R attached hereto.

^{7/} Compare Exhibit JA-10, with JA-10R (In calculating the updated U.S.-South Korea nonstop seat and departure shares in Exhibit JA-10R, Asiana's JFK-ICN service is included as a daily nonstop, even though Asiana's service from JFK to ICN requires a technical stop in Anchorage. Thus, part of the increase in United's and Asiana's combined nonstop seat and departure share in the U.S.-South Korea market is attributed

3. This relatively modest increase in the percentage of daily frequencies and nonstop seats to be operated by United and Asiana will not have an adverse effect on competition in the U.S.-South Korea air travel market. On the contrary, by linking United's hub at San Francisco with Asiana's hub at Seoul's Incheon Airport on a daily basis, United's new nonstop service will better connect the carriers' networks than does Asiana's current four day per week nonstop service between San Francisco and Seoul.^{8/} With better network connections, United and Asiana will be able to offer improved online connections to passengers traveling between the U.S. and Asia, and enhance their ability to compete with the Korean Air/Delta alliance, the leading competitors in the U.S.-South Korea market.^{9/}

Furthermore, the U.S.-South Korea market will continue to be served on a nonstop basis by Singapore Airlines, which is free to add frequencies and routes at any time as part of its service between the U.S. and Singapore. The market will also continue to be served by Northwest, Japan Airlines and ANA, which offer indirect service in the market via Japan. Moreover, under the U.S.-South Korea open skies agreement, Northwest is free to upgrade its U.S.-Korea service to one or more daily nonstops at any

to the carriers' decision to include Asiana's JFK-ICN service in calculating nonstop seat and frequency shares in Exhibit JA-10R, whereas because of the technical stop requirement, they did not list the flight as a nonstop in the original exhibit attached to their Joint Application.)

^{8/} Although Asiana operates nonstop service on a daily basis between Seoul and United's hub at Los Angeles, the geographic location of United's San Francisco hub makes it a superior connecting point for passengers traveling between the U.S. and Asia.

^{9/} See Joint Application at Exhibit JA-13.

time should prices rise or service levels decline. Other U.S. carriers are also free to enter the market at any time on either a direct or indirect basis, helping to ensure that competition remains robust.

4. Competition in the local San Francisco-Seoul market will also remain robust after United upgrades its San Francisco-Seoul single-plane service to a daily nonstop. As noted above, the grant of immunity to United and Asiana will not reduce the number of carriers currently operating nonstop service between San Francisco and Seoul, which will remain at three. Rather, as also noted above, the upgrade will enhance competition on the route. This is because the United/Asiana alliance currently offers nonstop service on the route only four days per week, whereas the Korean Air/Delta alliance and Singapore Airlines each operates daily nonstop service. With the upgrade of United's indirect service to a daily nonstop, United/Asiana will be better able to compete with the daily nonstop services now being offered on the route by Korean Air/Delta and by Singapore Airlines. Moreover, Northwest, Japan Air Lines, and ANA will continue to offer indirect competition on the route via points in Japan, ensuring that the existing competition for local San Francisco-Seoul passengers remains robust.

In that regard, in prior cases, the Department has routinely granted antitrust immunity to alliances even though the parties operated overlapping service in a small number of city pair markets.^{10/} For example, in November 2002, the Department granted antitrust immunity to American Airlines and Swiss International Air Lines even

^{10/} See, e.g., Order 2002-11-12 (American/Swiss); Order 2002-1-6 (Delta/Air France/Alitalia/Czech); Order 1996-6-33 (Delta/Swissair/Sabena/Austrian).

though both carriers operated nonstop service on the New York-Zurich route and, based on CRS booking data, had a combined 65% share of local passengers.^{11/} In approving the American/Swiss alliance without conditions, the Department noted that, although the American/Swiss alliance would control the majority of the nonstop New York-Zurich bookings, there remained “a significant competitor to the alliance for nonstop travel ... [and] a number of competitive one-stop and connecting services.”^{12/} Here, by comparison, United and Asiana have not historically had a dominant share of San Francisco-Seoul local bookings. Nor are they likely to gain such a share as a result of United’s replacing of its single-plane service with a daily nonstop; United/Asiana will continue to face daily nonstop competition on the route from Korean Air/Delta and Singapore. For that reason, it is even more true here than it was in the case of American/Swiss, that there remain “significant competitor[s] to the [United/Asiana] alliance for nonstop travel ... [and] a number of competitive ... connecting services.”^{13/} As such, the granting of immunity without conditions to the alliance proposed between United and Asiana would be fully consistent with Department precedent.

* * * * *

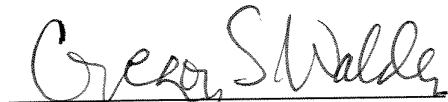
^{11/} See Order 2002-11-12 at 12 (American/Swiss).

^{12/} Order 2002-11-12 at 12.

^{13/} Id.

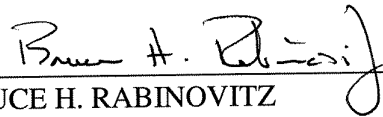
In sum, even with United's plan to introduce nonstop service between San Francisco and Seoul later this year, there will be no reduction in current competition in either the U.S.-South Korea or San Francisco-Seoul markets. The alliance proposed by United and Asiana, and the integration of the carriers' services that will be possible as a result of such alliance, will provide important service and competition benefits to the traveling and shipping public. As such, the Department should proceed expeditiously and grant the carriers' application.

Respectfully submitted,



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Dated: January 21, 2003

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U.S. - South Korea Nonstop Departures and Seats

Shares of Nonstop Departures and Seats

<u>Airline</u>	<u>Daily Departures</u>	<u>Daily Seats</u>
Korean Air	60.7%	63.4%
Asiana Airlines	24.4%	23.2%
Singapore Airlines	7.4%	7.2%
United Airlines	7.4%	6.2%
Total	100%	100%

Korean Air's Daily Departures and Number of Seats From the U.S.

<u>Origin</u>	<u>Destination</u>	<u>Daily Departures</u>	<u>Daily Seats</u>
Anchorage	Seoul	0.7	274
Atlanta	Seoul	0.4	129
Dallas/Fort Worth	Seoul	0.4	129
Honolulu	Seoul	0.7	215
Washington (Dulles)	Seoul	0.4	165
New York (JFK)	Seoul	1.0	384
Los Angeles	Seoul	2.7	983
Chicago	Seoul	0.9	258
San Francisco	Seoul	1.0	301
Total		8.2	2838

Asiana Airline's Daily Departures and Number of Seats From the U.S.

<u>Origin</u>	<u>Destination</u>	<u>Daily Departures</u>	<u>Daily Seats</u>
Los Angeles	Seoul	1.7	519
Seattle	Seoul	0.4	141
San Francisco	Seoul	0.6	187
New York (JFK)*	Seoul	0.6	191
Total		3.3	1038

Singapore Airline's Daily Departure and Number of Seats From the U.S.

<u>Origin</u>	<u>Destination</u>	<u>Daily Departure</u>	<u>Daily Seats</u>
San Francisco	Seoul	1.0	323

United Airline's Daily Departure and Number of Seats From the U.S.

<u>Origin</u>	<u>Destination</u>	<u>Daily Departure</u>	<u>Daily Seats</u>
San Francisco	Seoul	1.0	278

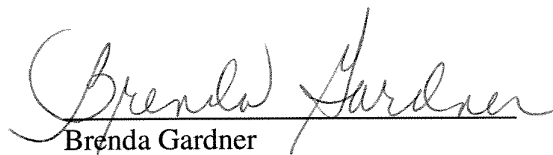
Total Number of U.S. - South Korea Daily Departures: 13.50
Total Number of U.S. - South Korea Daily Seats: 4,477

Source: OAG Schedule as of June 2003
Excludes U.S. Pacific Territories

* Asiana's JFK-ICN flight requires one-stop in Anchorage, but its ICN-JFK flight is nonstop.

CERTIFICATE OF SERVICE

I hereby certify that on this day I served a copy of the foregoing Supplement Number One To Joint Application Of United Air Lines, Inc. and Asiana Airlines, Inc., upon all persons listed on the attached Service List by causing a copy to be sent via first-class mail, postage prepaid.


Brenda Gardner

DATED: January 21, 2003

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